Pizza Time Theatre, Inc.
1982 Annual Report



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FINANCIAL SECTION

Company Profile

Pizza Time Theatre, Inc. operates and franchises Chuck E. Cheese's Pizza Time Theatre family-oriented restaurant and entertainment centers. The concept for these centers combines three elements: a quality pizza restaurant, video games and other amusements, and musical entertainment provided by the Pizza Time Players — computer-controlled robot characters.

These original robot characters, and the system of control computers and software which synchronizes their voices and movements to dialogue and songs, are created and manufactured by the Company for use in all Pizza Time Theatres. This entertainment system is trademarked as "Cyberamics."

The Company also manufactures target bowling games and play structures for use in its centers.

The Pizza Time concept was developed by Nolan K. Bushnell and Joseph F. Keenan, founders of the Company. The first center opened in 1977, and in June 1978 the Company acquired all rights to the concept and the single operating center from Atari, Inc., a subsidiary of Warner Communications, Inc.

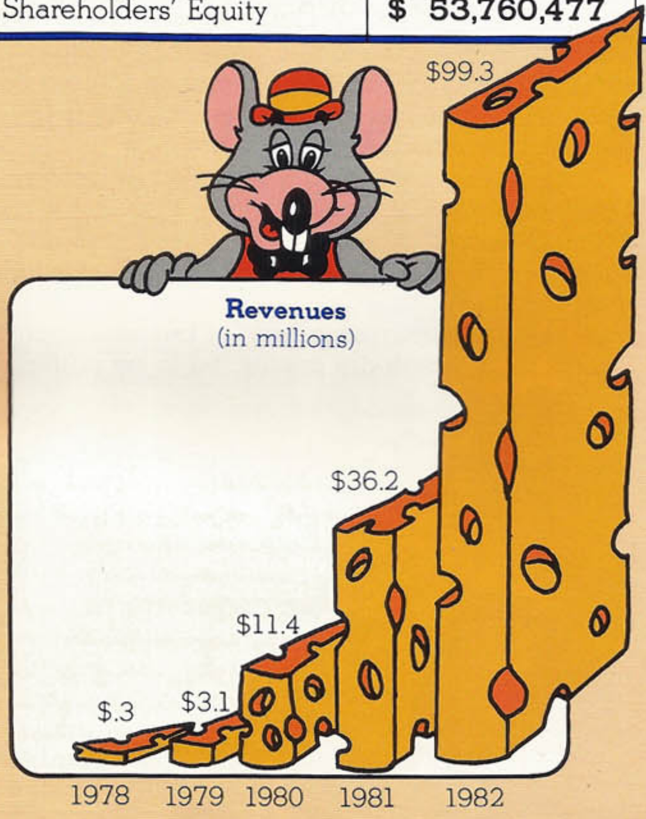
At the close of fiscal year end 1982, 204 Pizza Time Theatres were operating in 35 states, Canada, Australia, and Hong Kong.

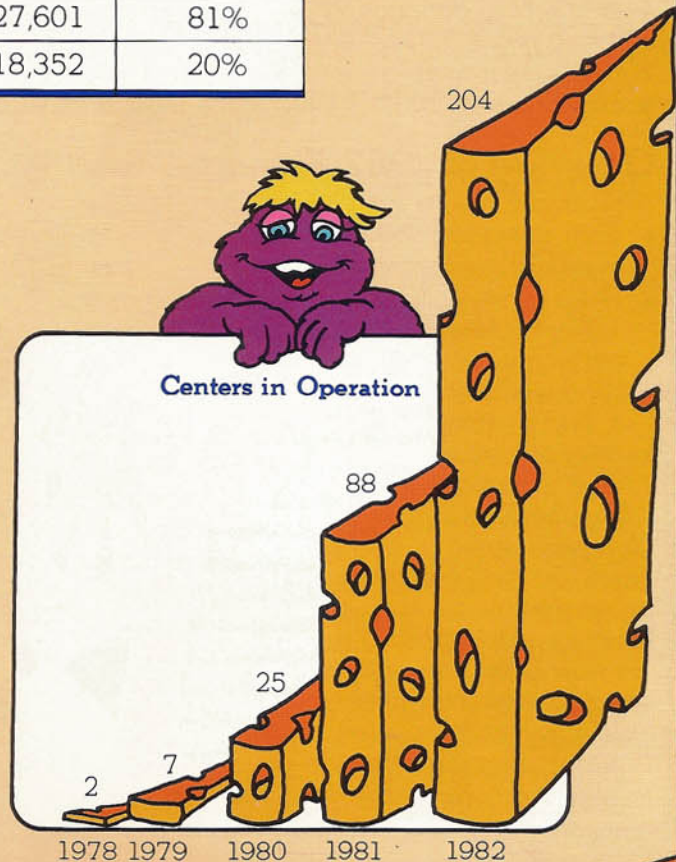
The Company completed its initial public stock offering in April 1981. The stock is currently traded in the over-the-counter market.

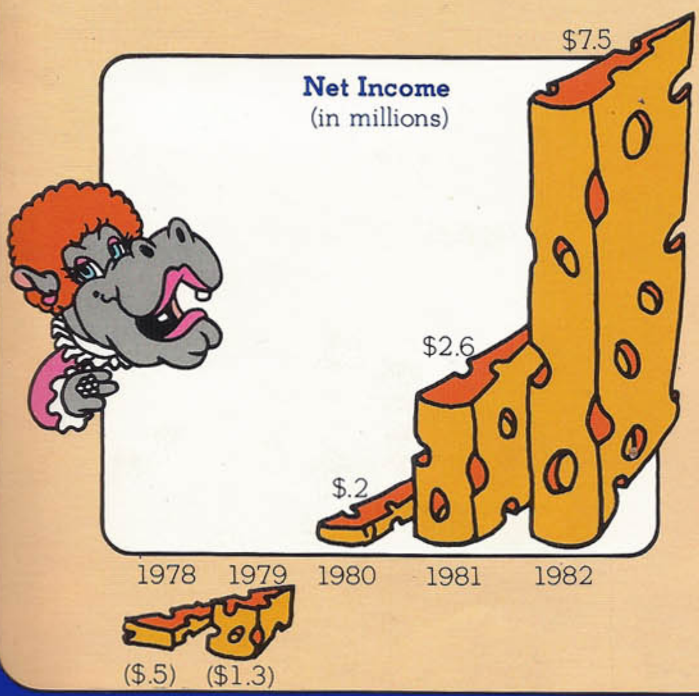
Chuck E. Cheese's
Pizza Time Theatre

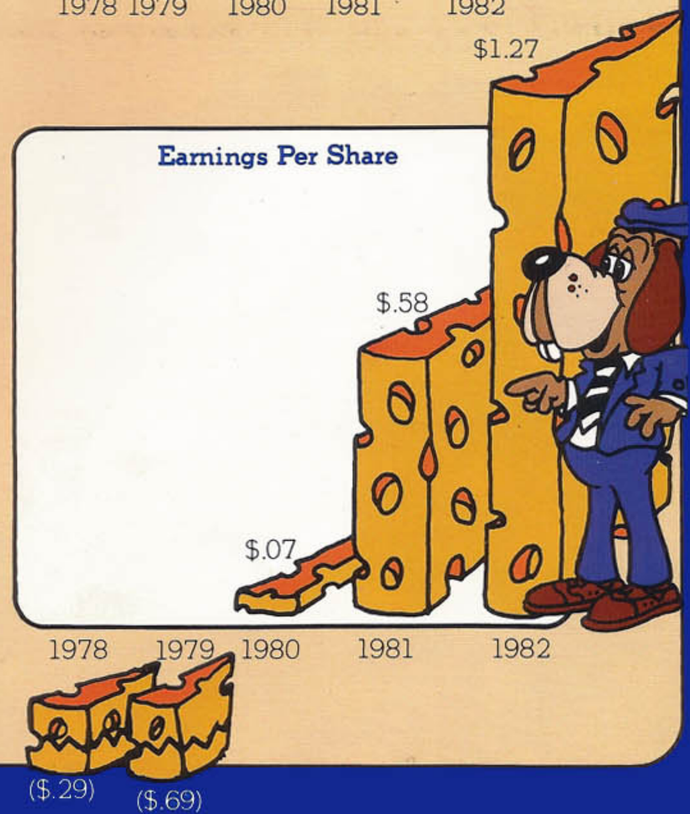
Financial Highlights

	1982	1981	Change
Total Revenues	**$ 99,286,068**	$36,218,914	174%
Net Income	**$ 7,507,736**	$ 2,601,056	189%
Earnings Per Share	**$ 1.27**	$ .58	119%
Centers in Operation	**204**	88	132%
Total Assets	**$110,068,688**	$60,927,601	81%
Shareholders' Equity	**$ 53,760,477**	$44,818,352	20%









To Our Shareholders:

"Full Speed Ahead," the theme for our 1982 Annual Report, sums up a year of substantial growth, both in size of operations and in financial results for Pizza Time Theatre, Inc.

A strategy of rapid unit expansion and capitalizing upon the recognition of Chuck E. Cheese by children and families across the country has resulted in another year of record earnings for Pizza Time Theatre. With the opening of the 100th Company-owned center, and the 200th system-wide center in the fourth quarter, our young Company has achieved some notable milestones.

Overview of 1982 Financial Results

Financial results for 1982 are as follows:

- Total revenues of $99,286,068, a 174% increase over 1981 revenues.
- Net income of $7,507,736, or $1.27 per share, a 119% increase over 1981 net income of $.58 per share.
- Revenues from Company centers of $82,580,391, a 179% increase over 1981.
- Royalties from franchise owners of $7,041,414, a 363% increase over 1981.

This performance is due to the opening of new Company and franchised centers, execution of franchise territorial agreements, improved operations and an aggressive marketing strategy. With the implementation of a data polling system in the fourth quarter, we now have access to center sales and selected cost information on a daily basis. This constant monitoring of operations in the centers provides the opportunity to react immediately to cost inefficiencies, and has improved labor expense in Company centers.

Settlement of the litigation with Brock Hotel Corporation during the second quarter resulted in continuing percentage payments to the Company. With the conclusion of this litigation, legal expenses were reduced, and management time freed for other productive purposes.

Center Development

At fiscal year end, December 30, 1982, 204 Chuck E. Cheese's Pizza Time Theatres were operating in 35 states, Australia, Canada and Hong Kong. During 1982, 58 Company centers and 58 franchised centers opened, bringing the total number of Company centers to 109 and the total number of franchised centers to 95. The Company acquired seven centers from franchise owners during the year.

Company centers are concentrated in California, Colorado, Texas, Louisiana, Nevada, Florida, Oklahoma, Alabama and Connecticut. Franchised units are located in 28 states as well as in Canada, Australia and Hong Kong. The Company has franchise territorial development agreements with 34 persons or organizations, all of which are contracted to be multiple unit developers.

International Development

Franchise territorial agreements have been signed for centers to be opened in England and Puerto Rico in 1983. The Company also announced in 1982 the formation of a Canadian subsidiary, Chuck E. Cheese's PTT, Limited. Headquartered in Toronto, the new organization is developing the Chuck E. Cheese concept in Canada, and has recently signed a franchise agreement for centers in Alberta.



Letter to the Shareholders

Entertainment for Families

Pizza Time Theatre continues to target its concept of pizza, robotic entertainment and games to families with children ages 15 and under. To better serve this market we are increasing emphasis on participatory games and activities for young children. In 1982, we installed in 12 Company centers playlands featuring recreational equipment for active play. We will expand this program in Company units in 1983. We also are developing educational games for young children and will continue expanding this operation in 1983. Computer learning centers for children with supervised instruction have recently been installed in several Company centers and are undergoing testing and further refinement. Our centers, with their computer-based technology and popularity with children, offer ideal opportunities to transfer the entertainment aspect of computers to a learning function. We feel Chuck E. Cheese's centers can be places for children to learn as well as places to have fun.

To keep our musical entertainment fresh in the centers, we continue to develop new Cyberamics characters and new shows for the existing characters. In 1982 we introduced two new acts, bringing our Cyberamics entertainment system to a total of 17 characters or character sets.

Our policy in the centers of requiring all children under 18 to be accompanied by adults will continue to be supported in order to maintain the wholesome, family environment so important to Chuck E. Cheese's.



Restaurant Operations

With the opening of our test kitchen at Chuck E. Cheese's University in San Jose, California, the Company has implemented an ongoing food product development and improvement program. A major food research project is currently underway which we anticipate will bring new and profitable products to market in 1983. We continue to stress customer service and cleanliness as well as quality food products in our centers, with incentives given to unit managers and crews for outstanding results.

Management Training and Development

Our management training program continues successfully at Chuck E. Cheese's University. In 1982, 490 candidates completed the six-week program which includes an extensive course in all phases of center management, with two weeks on-the-job training. Because the quality of our center operations is directly dependent on the ability of our managers, we will continue to emphasize and augment management development throughout the Pizza Time system.

New Manufacturing Facilities

We celebrated the opening of a 35,000 square-foot games manufacturing facility in Hollister, California in April 1982. Chuck E. Cheese Rolls (target bowling games), cabinets and play structures for Company centers, and for sale to franchise centers, are currently being built in the plant. In addition, the Cyberamics manufacturing plant and the distribution center recently moved to a new site in Milpitas, California. The Cyberamics manufacturing operation and administration offices are housed in a 60,000 square-foot building adjacent to a 101,000 square-foot warehouse and distribution center. This new complex triples our manufacturing and distribution space, and allows for future expansion into the manufacturing of proprietary electronic games.

National Marketing Program

With the growth of Chuck E. Cheese's Pizza Time Theatres across the country, the Company launched a major advertising campaign in 1982 based on the slogan, "Smile, America, say Chuck E. Cheese." The campaign markets happiness, food and fun to our family audience through children's television programming. To capitalize on our growing chain of units nationwide, we will begin advertising on network television in the first quarter of 1983. In addition, the Company is beginning a national licensing program for Chuck E. Cheese merchandise.

Letter to the Shareholders

Goals and Outlook

The Company expects to add an estimated 120 new centers to the chain in 1983. About half of these will be developed by franchise owners. It is expected that some of these units will be in European and Far Eastern markets with future expansion anticipated in these areas.

I am optimistic about the future of the family entertainment business, even in the present adverse economic environment. The leisure industry has a history of stability during periods of recession. This is apparent in today's economy when people have continued to spend on family entertainment as evidenced by record numbers of people attending family-oriented movies in 1982, and by the growing number of competitors in the restaurant/entertainment business. We will continue to improve our competitive edge in 1983 by emphasizing the following objectives:

- maintaining our family environment at Chuck E. Cheese's with emphasis on participatory and educational activities for children
- designing and manufacturing innovative, proprietary games
- expanding our manufacturing facilities
- stressing research and development for new entertainment concepts

We are proud of our strong franchise organization, and appreciate the support and good ideas of our capable franchise owners. In addition to our franchise owners, the company owes its success to the creative and hardworking employees who have contributed so much to the Pizza Time concept.

Because we believe our people are motivated by a sense of involvement in the Company, we will work to maintain the entrepreneurial spirit that has created Chuck E. Cheese's. By meeting the challenges of today with innovative developments for tomorrow, we look forward to continuing "full speed ahead" for future success.



February 14, 1983

Joseph F. Keenan
President



Looking Ahead

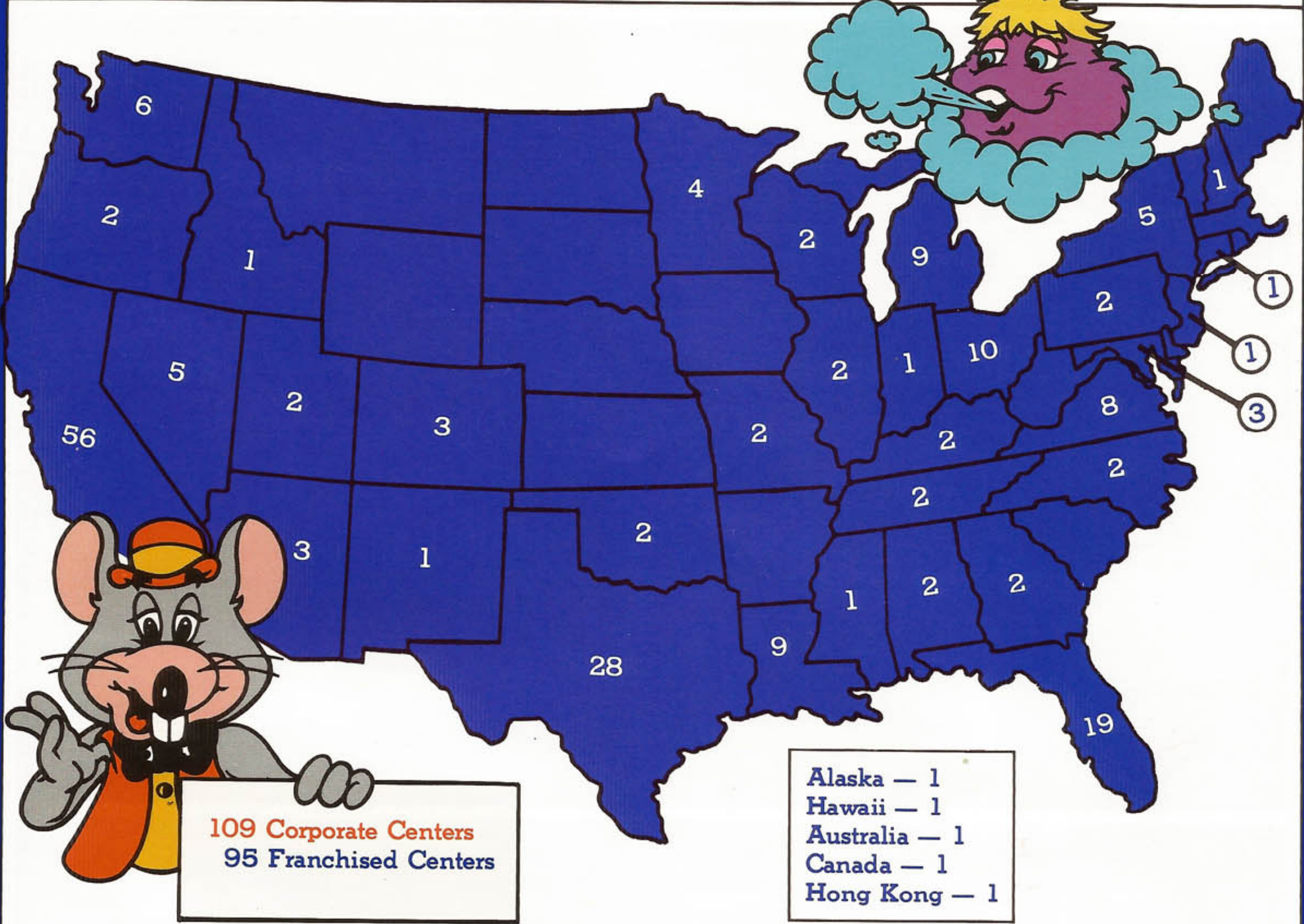
In 1982, Pizza Time Theatre, Inc. laid the foundation for diversification in coming years. We believe that 1983 will be a time of growth and change in which the transition from a specialized restaurant concept to a diversified leisure company will be evident.

We look forward to the challenge of redefining the coin-operated game business. We also look forward to introducing Kadabrascope, the process of merging traditional cartoon animation techniques with the technology of computer assisted animation. This innovation further strengthens our role as creator and licensor of entertainment characters.

Leisure time is our arena, technology our tool.

Nolan K. Bushnell
Chairman of the Board

Chuck E. Cheese's Centers System-Wide



Alabama: Mobile, Montgomery
Alaska: Anchorage
Arizona: Tempe, Tucson (2)
California: Bakersfield, Bell, Canoga Park, Capitola, Chico, Citrus Heights, Concord, Costa Mesa, Covina, El Cajon, El Monte, Escondido, Fremont, Fresno, Fullerton, Garden Grove (2), Granada Hills, Hayward, Huntington Beach, La Habra, Lake Forest, Laverne, Lodi, Long Beach, Marysville, Milpitas, Modesto, Napa, National City, Northridge, Pico Rivera, Pinole, Pleasanton, Redwood City, Riverside (2), Sacramento (2), Salinas, San Bernardino, San Diego (2), San Jose (4), San Ramon, Santa Maria, Santa Rosa, Simi Valley, Stockton, Sun Valley, Sunnyvale, Upland, Victorville
Colorado: Aurora, Boulder, Westminster
Connecticut: Waterbury
Florida: Bradenton, Brandon, Clearwater, Daytona Beach, Fort Myers, Hialeah, Jacksonville, Lake Worth, Melbourne, Ocala, Orlando, Pensacola, Plantation, Pompano Beach, Tallahassee, Tampa (2), West Palm Beach, Winter Park
Georgia: Atlanta, Stone Mountain
Hawaii: Pearl City
Idaho: Boise
Illinois: Loves Park, Springfield
Indiana: Fort Wayne
Kentucky: Florence, Louisville
Louisiana: Baton Rouge (2), Bossier City, Chalmette, Mandeville, Marrero, Metairie, New Orleans, Shreveport
Maryland: Baltimore, New Carrollton, Rockville
Michigan: Ann Arbor, Clawson, Ferndale, Okemos, Southgate, Sylvan Lake, Warren, Westland, White Lake Township
Minnesota: Blaine, Burnsville, Maplewood, New Hope
Mississippi: Jackson
Missouri: Springfield, St. Charles
Nevada: Las Vegas (3), Reno, Sparks
New Hampshire: Manchester
New Jersey: Wayne
New Mexico: Albuquerque
New York: Albany, Cheektowaga, New Hartford, Penfield, Salina
North Carolina: Charlotte, Raleigh
Ohio: Akron, Boardman, Cincinnati (2), Columbus (2), Maple Heights, Mentor, Middleburg Heights, North Olmsted
Oklahoma: Lawton, Tulsa
Oregon: Beaverton, Portland
Pennsylvania: Monroeville, Philadelphia
Tennessee: Memphis, Nashville
Texas: Arlington, Austin, Beaumont, College Station, Dallas (4), El Paso (2), Euless, Fort Worth (3), Houston (3), Killeen, McAllen, Pasadena, Plano, Richardson, San Antonio (2), Texarkana, Tyler, Victoria
Utah: Ogden, Salt Lake City
Virginia: Alexandria, Baileys Crossroads, Burke, Hampton, Norfolk, Richmond (2), Springfield
Washington: Bellevue, Federal Way, Lynwood, Richland, Seattle, Tukwila
Wisconsin: Brookfield, West Allis

AUSTRALIA
Queensland: Carina

CANADA
Ontario: Burlington

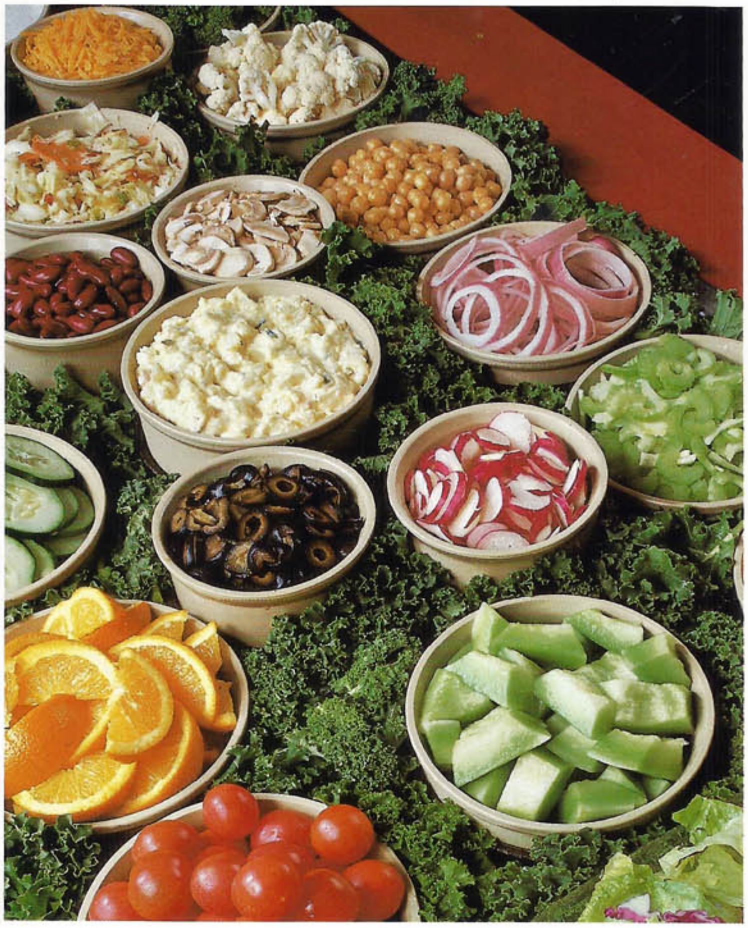
HONG KONG: Kowloon

Facilities and Manufacturing





Food Products and Development





(Opposite top) *The Victorville, California center is an example of the free-standing 10,000 to 13,500 square-foot units being built in various areas of the country.*

(Opposite bottom) *Cyberamics robot characters that perform in the centers are assembled at the manufacturing plant in Milpitas, California.*

(Top left) *Salad bars offering a variety of fresh vegetables and fruits are featured in centers nationwide.*

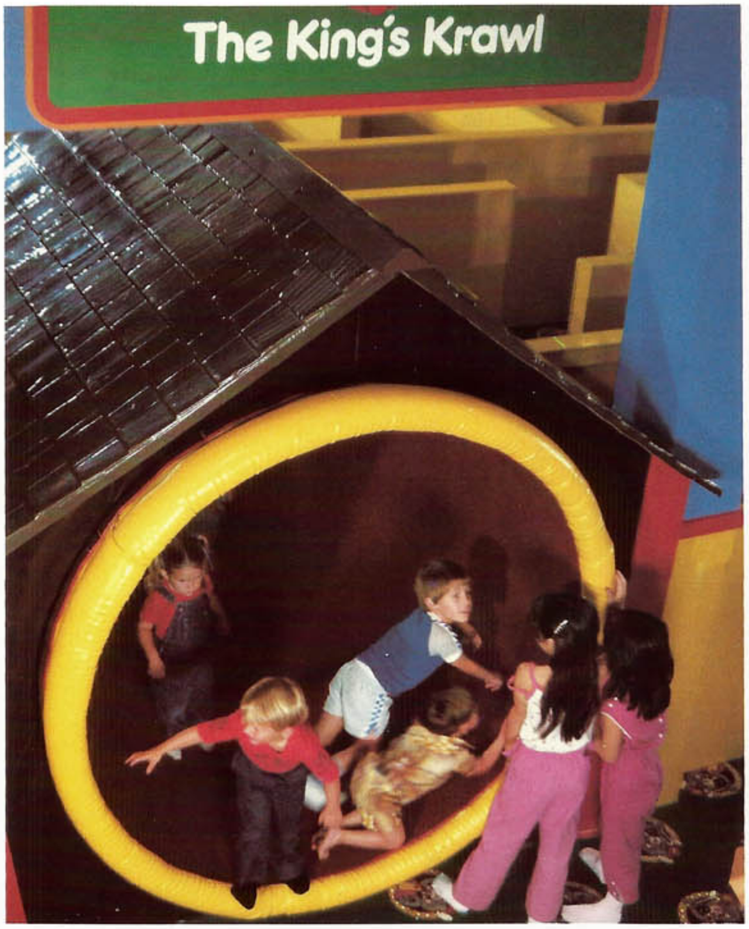
(Top right) *Natural cheeses, premium meat toppings and other high quality ingredients are used on the pizzas.*

(Bottom) *Food product development is conducted in the test kitchen at Chuck E. Cheese's University of San Jose, California.*



Playland Concept







National Image

(**Opposite**) *Young children enjoy active play experiences in climbing, crawling, and "fun-house" amusements installed in selected larger centers. This playland concept is being implemented in additional centers during 1983.*

(**Right**) *The "Smile America, Say Chuck E. Cheese" national advertising campaign introduced in 1982 markets happiness, food and fun to our family audience. Television commercials feature Chuck E. Cheese leading a delighted child through the fantasy land of Pizza Time Theatre.*







Selected Financial Data

	Year Ended				Incorporation May 12, 1978 through
	December 30, 1982	December 27, 1981	December 28, 1980	December 30, 1979	December 31, 1978
Selected Statement of Earnings Data:					
Revenues from Company centers	**$ 82,580,391**	$29,547,007	$ 9,336,444	$ 2,960,821	$ 347,452
Initial franchise fees	**1,160,000**	1,105,000	750,000	20,000	—
Other franchise revenues	**15,545,677**	5,566,907	1,339,084	84,918	801
Total revenues	**99,286,068**	36,218,914	11,425,528	3,065,739	348,253
Net income (loss)	**7,507,736**	2,601,056	176,879	(1,324,307)	(525,037)
Net income (loss) per share	**1.27**	.58	.07[1]	(.69)	(.29)
Weighted average shares outstanding	**5,893,098**	4,492,265	2,598,404	1,927,999	1,794,666
Selected Balance Sheet Data:					
Working Capital	**$ 4,242,197**	$21,763,501	$ 590,755	$ 397,828	$ (477,982)
Total assets	**110,068,688**	60,927,601	9,483,330	3,471,977	1,062,330
Long-term debt	**32,181,692**	4,562,170	1,155,807	1,750,000	300,000
Total shareholders' equity (deficit)	**53,760,477**	44,818,352	5,884,485	(576,344)	107,963

[1]See accompanying consolidated financial statements for cumulative effect of change in accounting method.



Management's Discussion and Analysis

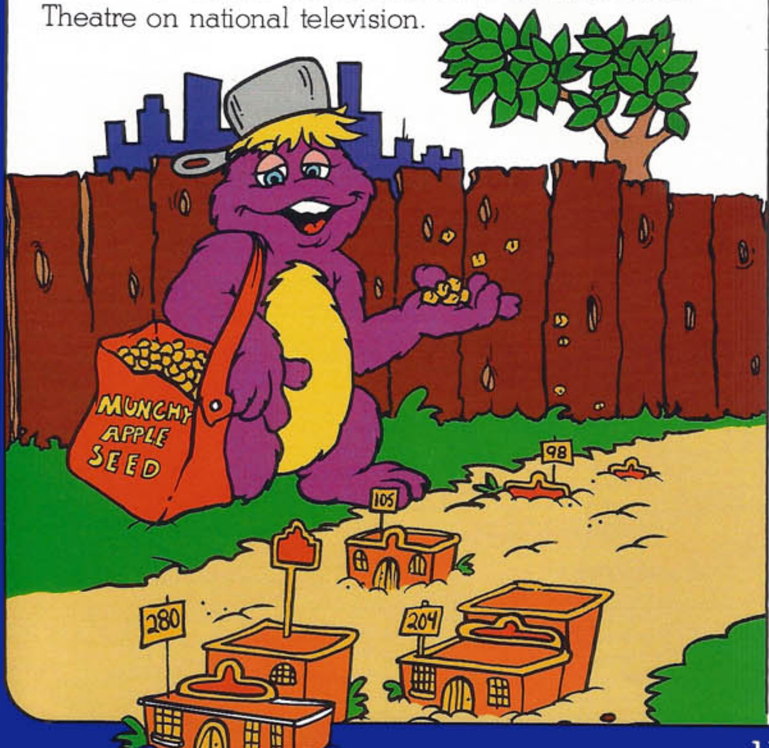
Overview

The Company's growth in revenues and income is principally due to substantial growth in the number of Company and franchised centers opened during the last two years. The following table shows the number of centers in operation at fiscal year end 1980, 1981, 1982.

	Company Centers			Franchise Centers			Total		
	1980	1981	1982	1980	1981	1982	1980	1981	1982
Open at beginning of the year	6	14	44	1	11	44	7	25	88
Opened during year	8	30	58	10	33	58	18	63	116
Acquired	—	—	7	—	—	(7)	—	—	—
Open at end of year	14	44	109	11	44	95	25	88	204

Revenues from Company centers consist of total sales of the centers. Franchise fees include initial fees paid to the Company for individual center franchises. The Company's territorial franchise agreement grants a right to develop a number of franchises within a specified territory upon payment of a non-refundable fee of $5,000 per location. When a franchised center is opened under this arrangement the $20,000 fee then due is reduced by the $5,000 non-refundable fee previously paid. Other franchise revenues include equipment and game sales, continuing royalty payments under franchise agreements (currently 6% of franchised center gross sales) and sales of certain merchandise. Equipment and merchandise are sold to franchise owners at prices which approximate cost.

Commencing November, 1982, both Company and franchised centers contributed an additional 1% of gross sales for the national advertising fund established to pay advertising costs for Pizza Time Theatre on national television.



Results of Operations 1982 compared with 1981

Record revenues and earnings were achieved with the opening of 116 Company and franchised centers in 1982.

Revenues from Company centers were $82,580,000 in fiscal 1982, a 179% increase over fiscal 1981. This increase was primarily a result of 58 new centers opened and 7 centers acquired during fiscal 1982.

Revenues from franchise operations were $16,706,000, 150% higher than 1981. The increase in initial franchise fees reflects income received from 58 franchised centers opened during 1982 as compared to 33 opened during 1981 and the sale of territorial franchise agreements. The increase in other franchise revenues was principally due to the sale of Cyberamics to franchise owners, royalty revenues from additional franchised centers and the Brock chain of ShowBiz Pizza Place Restaurants. In June 1982, the Company settled its litigation with Brock resulting in a $750,000 lump sum payment plus monthly payments of 1.5% to 2% of gross sales of Brock's first 160 ShowBiz Pizza Place units over the next 14 years.

The increased cost of sales for centers was in line with higher sales for 1982. Operating expenses for the centers were up as the Company expanded its promotional and advertising programs in 1982 over 1981. Also, operating expenses were affected by the higher cost associated with the opening of 58 new centers.

Engineering and product costs include amounts related to the production of Cyberamics units and other products sold to both Company and franchised centers. These costs increased proportionately as a result of the greater number of Company and franchised centers.

Selling, general and administrative expenses increased in 1982 as a result of the expansion of the Company's operations. However, these expenses decreased from 20.7% of total revenues in 1981 to 17.3% of total revenues during 1982.

The Company financed its growth by leasing certain assets and borrowing approximately $19,300,000 under bank lines of credit. During 1982 interest expense from bank borrowings was $489,000 of which approximately $250,000 was capitalized. Interest income in 1982 was $1,076,000 compared to $1,071,000 in 1981.

During 1982, the Company opened 58 centers providing a large investment tax credit which resulted in an overall effective tax rate of approximately 15% for 1982. The Company expects that its effective tax rate in 1983 will be higher than that in 1982.

Net income after provision for federal and state taxes increased from $2,601,056 in 1981 to $7,507,736 in 1982. This represents an increase from $.58 per share in 1981 to $1.27 per share in 1982. Net income per share was affected by the 31% increase in the average number of shares outstanding.

1981 compared with 1980

Revenues from Company centers in fiscal 1981 increased over fiscal 1980 primarily as a result of 30 new centers opened during fiscal 1981 and increased revenues from existing centers opened in fiscal 1980.

Thirty-three franchised centers opened during fiscal 1981 as compared to 10 franchised centers opened during fiscal 1980.

The Company raised approximately $36,000,000 from the sale of common stock to the public in 1981. These funds were invested in short-term interest-bearing securities pending utilization. During 1981 interest income from such investments was approximately $1,071,000 ($879,000 net of interest expense).

Net income after provision for federal and state taxes increased from $176,879 in 1980 to $2,601,056 in 1981. This represented an increase from $.07 per share in 1980 to $.58 per share in 1981. Net income per share did not increase at the same rate as net income due to a substantial increase in the number of shares outstanding principally as a result of the issuance of 900,000 shares of common stock in an initial public offering in April 1981 and 1,033,166 shares of common stock in a second public offering in November 1981.



Management's Discussion and Analysis

Liquidity and Capital Resources

Rapid development of Company centers has required and will require substantial working capital, and cash flow from operations is not sufficient to meet all of such cash needs. In prior years the Company financed its growth through private and public sales of equity and debt securities, bank borrowings and equipment leases. The Company expects that cash flow from operations, leases, the Company's existing bank lines of credit and additional lines currently being negotiated will be sufficient to meet working capital needs through fiscal 1983.

During fiscal 1982, the Company utilized cash flow available from operations, a portion of the net proceeds of two 1981 public offerings and approximately $19,300,000 of its bank lines of credit for additional center development. As the result of the use of proceeds of borrowings in development of additional centers, as reflected in the increase in the Company's property and equipment, such proceeds did not increase current assets. Accordingly, the ratio of current assets to current liabilities declined from approximately 3.0 at December 27, 1981 to approximately 1.2 at December 30, 1982. The Company anticipates that this trend will continue as long as a substantial portion of its expansion is financed with cash flow from operations and current borrowings.

At December 30, 1982, the Company's principal unutilized sources of liquidity consisted of approximately $6 million of available borrowings under its bank lines of credit and approximately $2.5 million of available commitments under its equipment lease agreements.

The Company's objective is to open about 60 new Company centers in fiscal 1983. At December 30, 1982, the Company had signed leases for 45 centers which had not yet been remodeled or occupied. The Company expects that cash expenditures of $500,000 to $850,000 will be required for each center. The Company expects to fund these cash requirements from the sources discussed above.

Impact of Inflation

Significant inflationary factors related to the Company's operations include food and labor costs and occupancy costs of premises. Many employees are paid hourly rates related to the federal minimum wage. Accordingly, inflation-related increases in the minimum wage have increased, and may continue to increase, the Company's costs. Higher costs, coupled with uncertainty among financial institutions about making long-term, fixed-rate mortgage commitments in a period of volatile interest rates, have significantly increased the costs of lessors and developers who lease centers to the Company. Accordingly, they have increased rentals under such leases. Furthermore, most of the present leases contain periodic escalations of annual rentals based upon increases in specified cost-of-living indices. The Company expects that most of its future leases will contain similar provisions. Although no assurances can be given as to the future, to date, the Company has been able to increase prices to match cost increases.

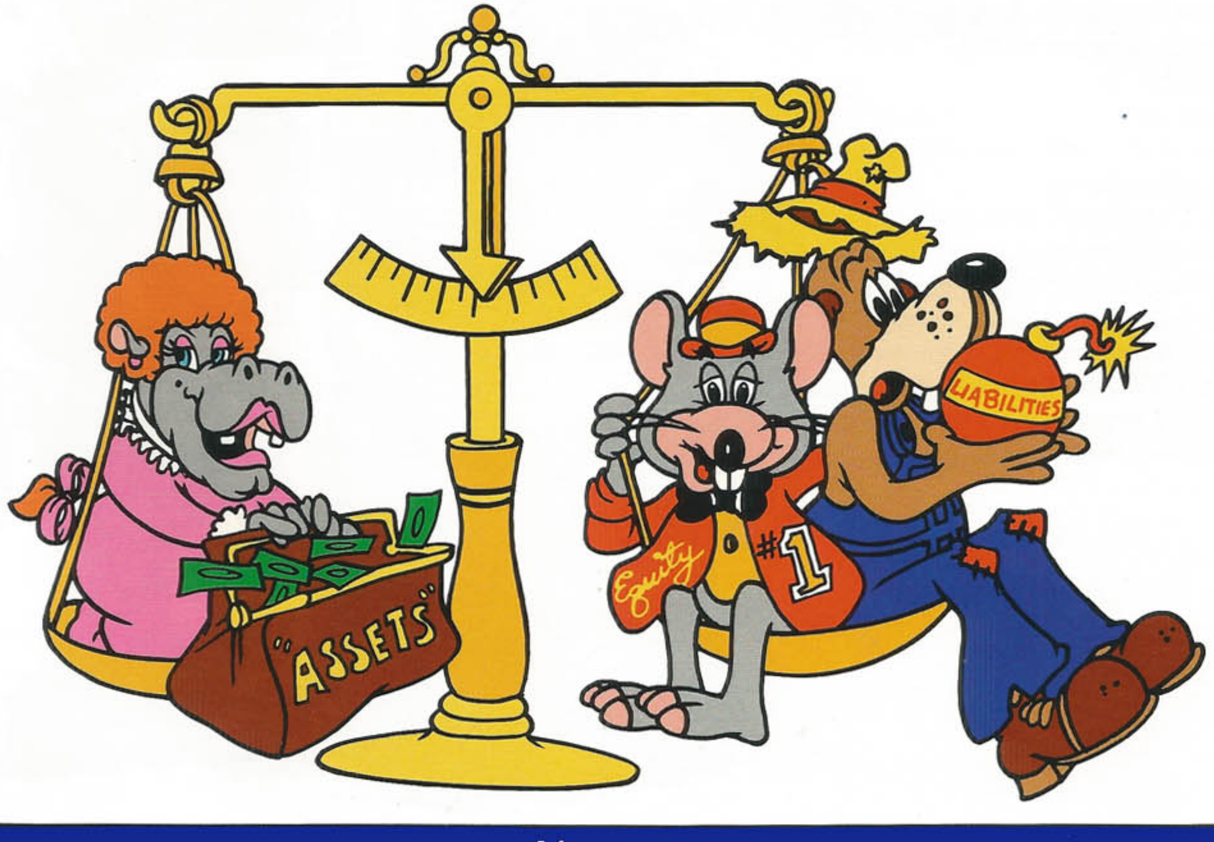


Consolidated Balance Sheets

December 30, 1982 and December 27, 1981

	1982	1981
Assets		
Current assets:		
Cash and cash equivalents	$ 3,735,505	$22,178,796
Receivables	5,130,973	2,364,062
Inventories	12,646,982	6,523,754
Prepaid expenses	1,300,009	429,380
Center pre-opening expenses	3,247,000	1,292,000
Total current assets	26,060,469	32,787,992
Long-term receivables	—	145,000
Property, equipment and leasehold improvements at cost less accumulated depreciation and amortization	80,449,709	27,170,011
Other assets	3,558,510	824,598
	$110,068,688	$60,927,601
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 9,421,960	$ 7,329,147
Accrued liabilities	3,260,819	1,366,431
Income taxes payable	416,264	317,000
Current installments of long-term debt	7,990,729	792,898
Deferred income	728,500	1,219,015
Total current liabilities	21,818,272	11,024,491
Long-term debt, excluding current installments	32,181,692	4,562,170
Deferred income	973,582	188,588
Deferred income taxes	1,334,665	334,000
Shareholders' equity:		
Common stock. Authorized 20,000,000 shares; outstanding 5,827,241 shares in 1982; 5,692,411 shares in 1981	45,324,150	43,889,761
Retained earnings	8,436,327	928,591
Total shareholders' equity	53,760,477	44,818,352
	$110,068,688	$60,927,601

See accompanying notes to consolidated financial statements.



Consolidated Statements of Earnings

Three years ended December 30, 1982, December 27, 1981 and December 28, 1980

	1982	1981	1980
Revenues:			
Company centers	**$82,580,391**	$29,547,007	$ 9,336,444
Initial franchise fees	**1,160,000**	1,105,000	750,000
Other franchise revenues	**15,545,677**	5,566,907	1,339,084
Total revenues	**99,286,068**	36,218,914	11,425,528
Costs and expenses:			
Company centers:			
Cost of sales	**36,539,861**	13,472,154	4,234,314
Operating expenses	**31,504,642**	10,035,931	2,842,133
Engineering and product costs	**6,101,313**	2,834,582	1,142,474
Selling, general and administrative expenses	**17,155,941**	7,503,188	2,871,061
Interest expense (income), net	**(832,925)**	(878,997)	243,667
Total costs and expenses	**90,468,832**	32,966,858	11,333,649
Income before income taxes and cumulative effect of change in accounting method	**8,817,236**	3,252,056	91,879
Income taxes	**1,309,500**	651,000	—
Net income before cumulative effect of change in accounting method	**7,507,736**	2,601,056	91,879
Cumulative effect on prior years of change in accounting method	**—**	—	85,000
Net income	**$ 7,507,736**	$ 2,601,056	$ 176,879
Earnings per common share and common share equivalent:			
Net income before cumulative effect of change in accounting method	**$ 1.27**	$ 0.58	$ 0.04
Cumulative effect on prior years of change in accounting method	**—**	—	0.03
Net income per common share and common share equivalent	**$ 1.27**	$ 0.58	$ 0.07
Pro forma amounts assuming the current accounting method was applied retroactively:			
Net income	**$ 7,507,736**	$ 2,601,056	$ 91,879
Net income per common share and common share equivalent	**$ 1.27**	$ 0.58	$ 0.04
Weighted average number of common shares and common share equivalents outstanding	**5,893,098**	4,492,265	2,598,404

See accompanying notes to consolidated financial statements.



Consolidated Statements of Shareholders' Equity

Three years ended December 30, 1982, December 27, 1981 and December 28, 1980

	Common Stock		Preferred Stock		Retained Earnings (Accumulated Deficit)	Total
	Number of Shares	Amount	Number of Shares	Amount		
Balance at December 30, 1979	2,194,666	$ 1,273,000	—	$ —	$(1,849,344)	$ (576,344)
Sale of stock under stock option plans	82,662	123,993	—	—	—	123,993
Sale of stock through private placements	471,276	1,966,050	690,980	3,173,907	—	5,139,957
Conversion of debt to common and preferred stock	177,142	870,000	40,000	150,000	—	1,020,000
Net income	—	—	—	—	176,879	176,879
Balance at December 28, 1980	2,925,746	4,233,043	730,980	3,323,907	(1,672,465)	5,884,485
Sale of stock under stock option plans	102,519	394,467	—	—	—	394,467
Sale of stock to public	1,933,166	35,938,344	—	—	—	35,938,344
Conversion of preferred to common stock	730,980	3,323,907	(730,980)	(3,323,907)	—	—
Net income	—	—	—	—	2,601,056	2,601,056
Balance at December 27, 1981	5,692,411	43,889,761	—	—	928,591	44,818,352
Sale of stock under stock option plans	90,395	242,923	—	—	—	242,923
Issuance of stock in connection with acquisitions	44,435	1,191,466	—	—	—	1,191,466
Net income	—	—	—	—	7,507,736	7,507,736
Balance at December 30, 1982	5,827,241	$45,324,150	—	$ —	$ 8,436,327	$ 53,760,477

See accompanying notes to consolidated financial statements.



Consolidated Statements of Changes in Financial Position

Three years ended December 30, 1982, December 27, 1981 and December 28, 1980

	1982	1981	1980
Sources of working capital:			
Net income	$ 7,507,736	$ 2,601,056	$ 176,879
Items which do not use working capital:			
Depreciation and amortization	8,922,145	2,256,267	785,605
Deferred income taxes	1,000,665	334,000	—
Working capital provided by operations	17,430,546	5,191,323	962,484
Decrease in long-term receivables	145,000	—	—
Net book value of property and equipment dispositions	146,364	163,223	94,429
Proceeds from long-term borrowings	41,212,325	11,407,433	5,603,275
Additions to deferred income	784,994	188,588	—
Conversion of debt to common and preferred stock	—	—	1,020,000
Sale of stock	242,923	36,332,811	5,263,950
Issuance of stock in acquisitions	1,191,466	—	—
Decrease in working capital	17,521,304	—	—
	$ 78,674,922	$53,283,378	$12,944,138
Uses of working capital:			
Additions to long-term receivables	$ —	$ —	$ 145,000
Additions to property, equipment and leasehold improvements	62,348,207	23,508,754	4,248,661
Additions to other assets	2,733,912	228,577	519,176
Conversion of debt to common and preferred stock	—	—	1,020,000
Current installments and repayment of long-term debt	13,592,803	8,004,786	6,197,468
Increase in working capital	—	21,541,261	813,833
	$ 78,674,922	$ 53,283,378	$12,944,138
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash and cash equivalents	$(18,443,291)	$21,984,627	$ 66,772
Receivables	2,766,911	1,703,041	602,258
Inventories	6,123,228	4,858,246	1,236,225
Prepaid expenses	870,629	284,800	73,295
Center pre-opening expenses	1,955,000	1,292,000	—
	$(6,727,523)	$30,122,714	$ 1,978,550
Increase (decrease) in current liabilities:			
Accounts payable	2,092,813	5,813,162	911,495
Accrued liabilities	1,894,388	972,370	13,995
Income taxes payable	99,264	317,000	—
Current installments of long-term debt	7,197,831	628,421	64,477
Deferred income	(490,515)	850,500	174,750
	10,793,781	8,581,453	1,164,717
Increase (decrease) in working capital	$(17,521,304)	$21,541,261	$ 813,833

See accompanying notes to consolidated financial statements.



Notes to Consolidated Financial Statements

Three years ended December 30, 1982, December 27, 1981 and December 28, 1980

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements reflect the consolidated balances of Pizza Time Theatre, Inc. and its wholly owned subsidiaries except PTT Financial Corporation which is accounted for on the equity method and has not been material to the consolidated group through 1982. All intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

Royalty and service fees from franchise operations are recorded in income on the accrual basis as earned.

During 1982 the Company settled its litigation with Brock Hotel Corporation and ShowBiz Pizza Place. Under the terms of the settlement the Company received a lump sum payment of $750,000 in June 1982 and 1½% of ShowBiz gross sales from June through December. Of these amounts, $375,000 was offset against related legal expenses. Future payments from Brock and ShowBiz will amount to 1½% to 2% of gross sales on the first 160 ShowBiz units operated during the next 14 years and will be recorded on an accrual basis as earned.

These revenues, as well as revenues received from sales of merchandise to franchise owners, are also included in the Consolidated Statements of Earnings under other franchise revenues. Revenue from the sale of Cyberamics is included in deferred income until time of shipment. Initial franchise fees which are received but not yet earned are also included in deferred income until such time as a franchise center is opened. Territorial development fees are recognized as income when the agreement is executed.

Territorial Development Fees

In 1980, the Company changed its method of accounting for territorial development fees to recognize income when the agreement is executed. Prior to 1980, territorial development fees were deferred and recorded as income when the related centers were opened. The current method of revenue recognition for territorial development fees was adopted in recognition of the fact that the Company has provided substantially all services and satisfied all obligations assumed under the territorial development agreements when such agreements have been executed. The effect of the change in 1980 was to increase net income before cumulative change by approximately $550,000. The adjustment of $85,000 related to prior years is included in income in 1980.

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market (net realizable value).

Depreciation and Amortization

Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of asset life or lease term.

Center Pre-opening Expenses

Beginning in 1980, pre-opening expenses related to new company centers are initially capitalized and expensed over 12 months from the opening date. At December 30, 1982, approximately $3,247,000 of such costs were deferred to 1983.

Income Taxes

Deferred income taxes result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. Investment tax credits are recorded as a reduction of the provision for Federal income taxes in the year realized.

Engineering and Product Costs

Engineering and product costs consist of costs associated with the manufacture of Cyberamics and other products related to franchised and Company centers. It is impractical for the Company to separate research and development from sustaining engineering costs. Both types of expenses are charged against income as incurred.

Earnings per Common Share

Earnings per common share and common share equivalent are based on the weighted average number of shares outstanding and equivalent shares from dilutive stock options.

Reclassifications

Minor reclassifications have been made to the 1981 and 1980 financial statements to conform with 1982 presentation.

Notes to Consolidated Financial Statements

Receivables

A summary of receivables is as follows:

	1982	1981
Trade accounts	$ 3,279,998	$ 1,600,030
12% notes receivable due at various dates from 1981 to 1983	145,000	145,000
Royalties and interest receivable	1,705,975	764,032
Total receivables	5,130,973	2,509,062
Less amounts due after one year	—	145,000
Current portion of receivables	$ 5,130,973	$ 2,364,062

Inventories

Inventories are as follows:

	1982	1981
Food, beverage, merchandise and supplies	$ 3,285,370	$ 1,234,985
Raw materials - Cyberamics	2,712,638	768,579
Work-in-process - Cyberamics	1,822,779	658,501
Finished goods - Cyberamics	938,382	954,983
Games and other equipment	3,887,813	2,906,706
	$12,646,982	$ 6,523,754

Property, Equipment and Leasehold Improvements

A summary of property, equipment and leasehold improvements is as follows:

	1982	1981
Cyberamics	$ 2,361,234	$ 995,962
Coin-operated amusement games	20,467,139	6,887,417
Restaurant equipment	6,253,633	3,376,986
Furniture and equipment	1,596,369	581,005
Land	1,796,239	330,000
Buildings	1,998,299	600,000
Building improvements	194,733	84,604
Leasehold improvements	37,022,673	12,900,823
Leased equipment under capital leases	20,684,673	4,800,093
	92,374,992	30,556,890
Less accumulated depreciation and amortization	11,925,283	3,386,879
	$80,449,709	$27,170,011

Amortization expense on leased equipment under capital leases was approximately $1,672,000 and $362,000 in 1982 and 1981, respectively.

In 1982, approximately $250,000 in interest expense was capitalized with leasehold improvements. There was no interest capitalization in 1981 or 1980 as the Company did not have any bank borrowings.

Accrued Liabilities

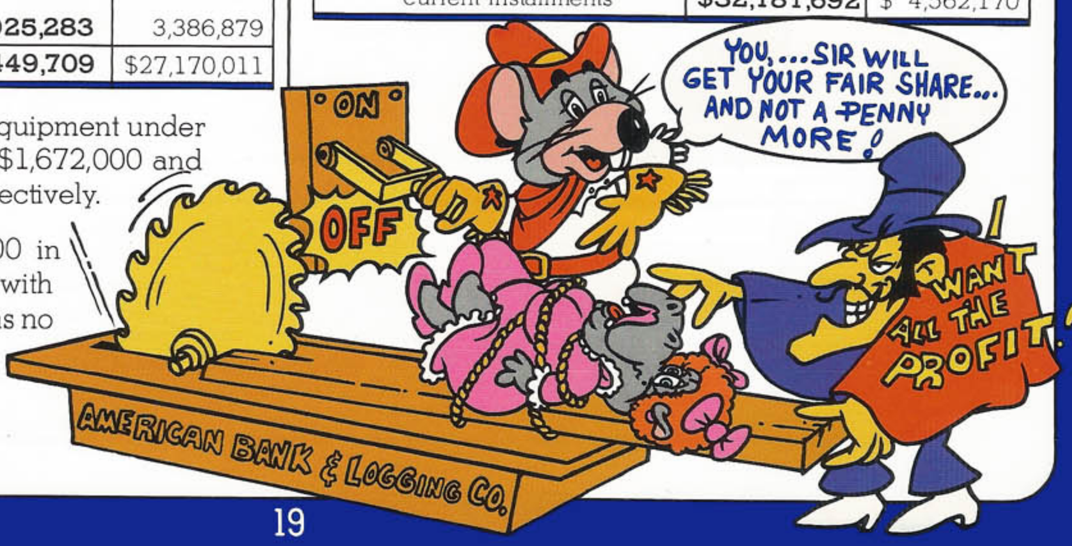
Accrued liabilities are as follows:

	1982	1981
Payroll and related items	$ 1,549,385	$ 805,940
Sales taxes	737,712	328,971
Other	973,722	231,520
	$ 3,260,819	$ 1,366,431

Long-term Debt and Notes Payable

A summary of long-term debt is as follows:

	1982	1981
Note payable for acquisition of assets of wood-working company due in two annual principal payments plus interest at 1% below prime beginning January 3, 1983	$ 289,733	$ —
Note payable to Atari, Inc. for acquisition of assets in connection with the organization of the Company, due in annual installments of $100,000 plus interest at prime plus 1/2%	—	100,000
Mortgage notes payable at interest rates from 9-10½% secured by property and due in equal monthly installments through 2001	694,794	730,489
Notes payable for acquisition of certain assets, due at various dates in 1983 at interest rates from 12-15%	656,931	—
Notes payable under bank lines of credit	19,300,000	—
Note payable secured by property, due in equal monthly installments through 1983	332,756	—
Obligations under capital leases	18,898,207	4,524,579
	40,172,421	5,355,068
Less current installments of long-term debt	7,990,729	792,898
Long-term debt, excluding current installments	$32,181,692	$ 4,562,170



Notes to Consolidated Financial Statements

As of December 30, 1982, the Company has bank lines of credit which provide for maximum borrowings of $25 million, bearing interest at rates between prime and prime plus 1/2%. The Company is required to maintain compensating balances totalling $800,000 and to pay a 1/2% per annum commitment fee on the unused portion of certain of the bank lines. Included in the Company's bank lines of credit is a $5,000,000 revolving line which converted to a five-year term loan on December 31, 1982 and another $2,500,000 revolving line which will convert to a four-year term loan in September 1984.

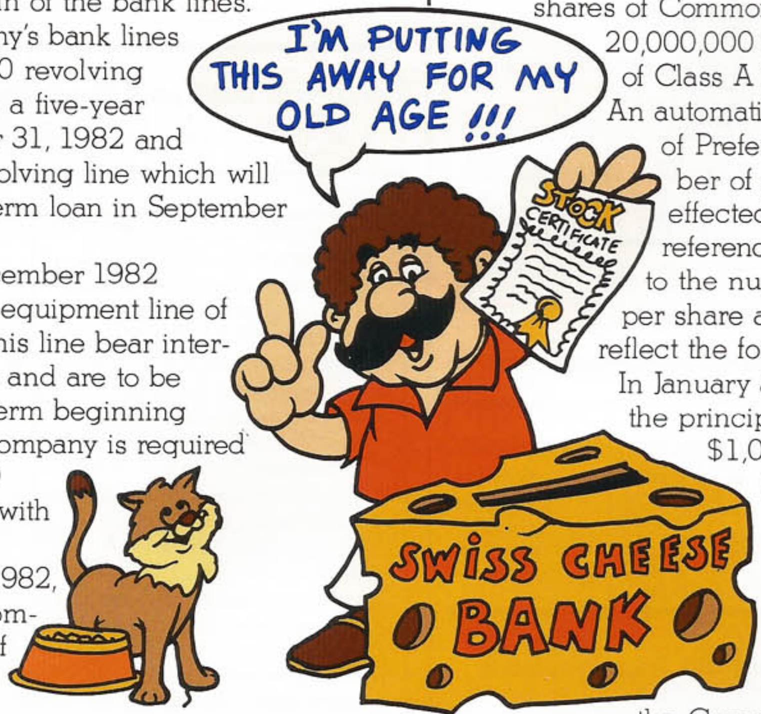
The Company in December 1982 obtained a $2,500,000 equipment line of credit. Borrowings on this line bear interest at prime plus 3/4% and are to be paid over a 60 month term beginning March 31, 1983. The Company is required to maintain a $125,000 compensating balance with the bank.

As of December 30, 1982, the Company was in compliance with the terms of all its bank lines of credit.

In August 1981, the Company purchased the land and buildings of a shopping center for $248,263 in cash and assumption of various mortgage obligations totalling approximately $751,440.

During 1982, the Company purchased land sites and buildings for existing and future Company restaurant locations for $2,398,288 in cash and promissory notes and assumption of mortgage obligations totalling approximately $826,161.

The principal payments required on long-term debt for the next five fiscal years are: 1983 — $7,990,729, 1984 — $15,291,229, 1985 — $6,151,681, 1986 — $5,783,754 and 1987 — $3,928,210.



Shareholders' Equity

On February 23, 1981, the shareholders of the Company approved two-for-three reverse stock split for both common and preferred stock which reduced the outstanding shares at December 28, 1980 to 2,925,746 and 730,980, respectively. The authorized shares of Common Stock were increased to 20,000,000 shares, and 10,000,000 shares of Class A Preferred Stock were authorized. An automatic conversion of 730,980 shares of Preferred Stock into an equal number of shares of Common Stock was effected as of April 16, 1981. All references in the financial statements to the number of shares and related per share amounts have been restated to reflect the foregoing matters.

In January and October 1980, loans from the principal shareholder totalling $1,020,000 were converted to 177,142 shares of common stock and 40,000 shares of preferred stock. The loans from the principal shareholder were in the form of notes bearing interest at 8%.

As of December 30, 1982, the Company had authorized a total of 733,332 shares for issuance under four stock option plans which provide for grant of stock options to employees (including officers and directors) at prices not less than fair value at the date of grant. Under the Company's 1979 and 1982 employee stock option plans, all options have five-year terms and generally options are exercisable commencing one year from the date of grant in cumulative annual installments of 33-1/3%. The terms of the 1980 and 1982 incentive and non-statutory stock option plans are similar to those described above.

A summary of 1982 and 1981 transactions under stock option plans is as follows:

	1982		1981	
	Number of Shares	**Exercise Prices**	Number of Shares	Exercise Prices
Outstanding at beginning of year	**309,960**	**1.50-21.50**	269,513	$1.50- 3.90
Granted	**239,508**	**15.25-27.25**	145,265	5.25-21.50
Exercised	**90,395**	**1.50-21.50**	102,519	1.50-18.125
Cancelled or expired	**25,181**	**3.90-27.25**	2,299	3.90-18.125
Outstanding at end of year	**433,892**	**1.50-27.25**	309,960	1.50-21.50
Shares exercisable at year end	**183,295**	**1.50-21.50**	147,942	1.50-21.50

Notes to Consolidated Financial Statements

The Company has also granted a leasing company an option to purchase 66,666 shares of common stock at an exercise price of $18 per share.

In connection with the acquisitions of franchised centers in Alabama and Colorado, the Company issued 31,000 shares and 13,435 shares of common stock respectively.

The Company has never declared or paid a cash dividend and anticipates that, for the foreseeable future, its earnings will be retained for use in its business.

Capital Leases

The Company has entered into various agreements which provide lease financing for equipment for Company centers. At December 30, 1982 and December 27, 1981, the Company had leased equipment for 79 centers and 20 centers, respectively, with terms ranging from five to seven years. As of December 30, 1982, lease financing has been arranged for an additional 8 centers for an aggregate of $2,237,000.

The following is a schedule of future minimum lease payments together with the present value of the minimum lease payments as of December 30, 1982:

1983	$ 6,433,954
1984	6,096,510
1985	5,858,193
1986	4,782,553
1987	2,390,882
Thereafter	143,178
Minimum future lease payments	25,705,270
Less amounts representing interest at 11% to 18%	6,807,063
Present value of minimum future lease payments	18,898,207
Less current portion	3,825,795
Long-term portion	$15,072,412

Income Taxes

Income tax expense consists of:

	1982	1981
Current:		
United States	$ 147,000	$ 39,000
Foreign	25,000	15,000
State	392,000	263,000
	564,000	317,000
Deferred:		
United States	404,500	300,000
State	341,000	34,000
	745,500	334,000
Total	$1,309,500	$651,000



Notes to Consolidated Financial Statements

The provision for income taxes differs from the amount computed by applying the U.S. Federal statutory corporate rate to income before taxes. The reasons for the differences and the tax effect of each are as follows:

	1982	1981
U.S. Federal statutory corporate rate	46.0%	46.0%
State income taxes, net of Federal income tax benefit	4.5	4.9
Investment tax credits	(36.3)	(29.3)
Surtax exemption	(.2)	(.6)
Other	.9	(1.0)
Effective rate	14.9%	20.0%

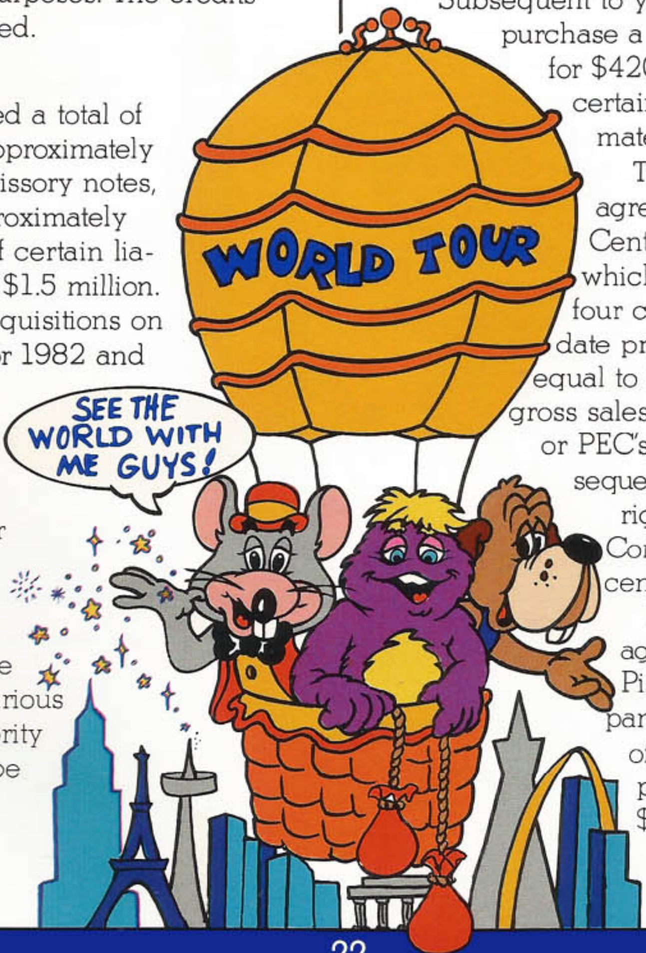
The sources of deferred income taxes and their effects are as follows:

	1982	1981
Tax depreciation in excess of depreciation reported in the financial statements	$597,000	$215,836
Center pre-opening expenses deferred for financial reporting purposes	291,000	194,806
Other	(142,500)	(76,642)
Total deferred taxes	$745,500	$334,000

As of December 30, 1982, the Company has an investment tax credit carryforward of $4.3 million of which approximately $3.6 million has been recognized for financial statement purposes. The credits will expire in 1997 if not utilized.

Acquisitions

In 1982, the Company acquired a total of seven franchised centers for approximately $5.5 million in cash and promissory notes, Company stock valued at approximately $1.2 million and assumption of certain liabilities totalling approximately $1.5 million. The proforma impact of the acquisitions on the Company's net earnings for 1982 and 1981 is not material.



Commitments and Contingencies

The Company leases its center locations and the facility which houses its principal executive offices, warehouse and manufacturing operations under lease agreements which expire at various dates through 2003. The majority of the lease agreements may be renewed, at the option of the Company, for five to ten year terms. These agreements have been accounted for as operating leases. Rent expense under these leases was approximately $7,072,028 in 1982, $2,582,080 in 1981 and $693,000 in 1980.

Real estate taxes, insurance and maintenance expenses are obligations of the Company.

Minimum future rental commitments under these lease agreements as of December 30, 1982 are as follows:

1983	$ 12,967,661
1984	13,364,276
1985	13,731,181
1986	13,728,435
1987	14,048,488
Thereafter	82,616,328
	$150,456,369

The Company is the defendant in litigation alleging breach of contract associated with a codevelopment agreement in which the plaintiff is seeking damages of $60 million. Management of the Company, based upon consultations with counsel and other information currently available, believes the plaintiff's allegations are without merit and that the outcome of the litigation will not have a material adverse effect on the Company's business or financial condition.

Subsequent Events

Subsequent to year end the Company agreed to purchase a franchised center in California for $420,000 cash and assumption of certain liabilities totalling approximately $310,000.

The Company has entered into an agreement with Pizza Entertainment Center (PEC), one of its franchisees, which gives PEC the right to sell their four centers to the Company at any date prior to July 16, 1985 for an amount equal to the lesser of 80% of the centers' gross sales for the previous one year period or PEC's investment in the centers. Subsequent to year-end, PEC exercised its right under the agreement and the Company agreed to purchase two centers for approximately $1.3 million.

In addition, the Company has agreed to purchase for cash and Pizza Time common stock a company involved in the development of video games. The aggregate purchase price is approximately $2.2 million.

Auditors' Report

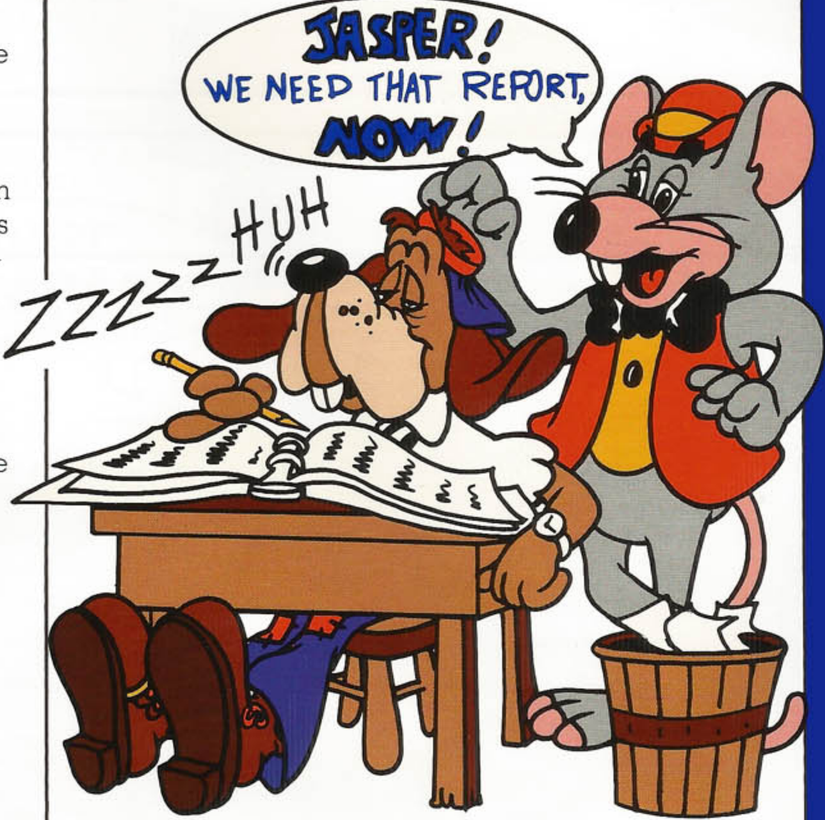
The Board of Directors
Pizza Time Theatre, Inc.:

We have examined the consolidated balance sheets of Pizza Time Theatre, Inc. and subsidiaries as of December 30, 1982 and December 27, 1981 and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the years in the three-year period ended December 30, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Pizza Time Theatre, Inc. and subsidiaries at December 30, 1982 and December 27, 1981 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 30, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

San Jose, California
January 26, 1983



Common Stock Data

The Company's stock is traded in the over-the-counter market and is listed on the NASDAQ National List under the symbol CHKY. The price range per common share is the highest and lowest closing bid quotation for Pizza Time Theatre, Inc.'s common stock during each quarter since April 16, 1981, the date the Company's common stock was first sold to the public. At December 30, 1982, there were approximately 3,296 shareholders of record.

Year ended December 30, 1982	High	Low
First quarter	25	18¼
Second quarter	32½	23½
Third quarter	29¾	20½
Fourth quarter	27¼	14¼

Year ended December 27, 1981	High	Low
Second quarter (from April 16)	28¼	22½
Third quarter	25¾	18
Fourth quarter	24½	20¼

Quarterly Data

Financial Information by Quarter (unaudited)

	Quarter Ended			
1982	March 21, 1982	June 17, 1982	Sept. 9, 1982	Dec. 30, 1982
Total Revenues	$17,198,687	$23,078,330	$24,883,121	$34,125,930
Net Income	1,659,355	1,978,929	1,403,415	2,466,037
Net Income Per Common Share and Common Share Equivalent	.28	.33	.24	.42
1981	March 23, 1981	June 14, 1981	Sept. 6, 1981	Dec. 27, 1981
Total Revenues	$ 5,354,884	$ 7,281,353	$ 9,552,234	$14,030,443
Net Income	125,151	358,137	735,329	1,382,439
Net Income Per Common Share and Common Share Equivalent	.04	.09	.17	.26

Revenues and net income during a year may be significantly affected by the timing of the opening of Company centers and franchised centers and the execution of territorial development agreements. The first three quarters of the Company's fiscal year are of 12 weeks duration, and the fourth quarter is of 16 weeks duration.



Corporate Directory

Corporate Officers

Nolan K. Bushnell
Chairman of the Board and
Chief Executive Officer

Joseph F. Keenan
President and Chief Operating Officer

George F. Hellick
Senior Vice President, Operations

Gene N. Landrum
Senior Vice President, Development

Randall L. Pike
Senior Vice President and
Chief Financial Officer

John A. Scott
Senior Vice President, Franchising

Jack W. Campbell
Vice President, International

John A. Impson
Vice President, Manufacturing

Robert L. Lundquist
Vice President, Special Projects

Donald K. Marks
Vice President, Franchising

Bruce H. Munro
Vice President and General Counsel

Patrick J. Saign
Vice President, Marketing



Board of Directors

Nolan K. Bushnell
Chairman of the Board
Pizza Time Theatre, Inc.

Joseph F. Keenan
President
Pizza Time Theatre, Inc.

Joseph W. Callahan, Jr.
Principal in CPS Properties
Real estate developers

Wallace R. Hawley
General Partner of InterWest Partners
Venture capital investors

Peter J. Sprague
Chairman of the Board
National Semiconductor Corporation

Donald T. Valentine
President
Capital Management Services, Inc.
Venture capital investors

Annual Meeting

The annual meeting of shareholders will be held Wednesday, April 27, at 10 a.m. at Chuck E. Cheese's Pizza Time Theatre, 2445 Fontaine Road, San Jose, California.

Auditors

Peat, Marwick, Mitchell & Co.,
San Jose, California

Transfer Agents and Registrar

The Bank of California, N.A., San Francisco

Stock Listing

The Company's common stock is traded in the over-the-counter market and is listed on the NASDAQ National List. Symbol: CHKY

Form 10K

If you would like a free copy of our annual report on SEC Form 10K for the fiscal year ended December 30, 1982, please contact Randall L. Pike, Chief Financial Officer, 1213 Innsbruck Drive, Sunnyvale, California, 94086.

Chuck E. Cheese's
Pizza Time Theatre

PIZZA TIME THEATRE 1982 ANNUAL REPORT

Date of Origin: 1983
Archived: 1-11-18
Submission by VegaNova
Version 1.0